MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

DAU5014 – AUDITING 1

(All Sections / Groups)

3 JULY 2023
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages with 4 questions.
2. Write your answers in the answer booklet provided.
3. Answer ALL questions.

QUESTION 1

Part A

Given are the two scenarios that incurred between the principals and agents for two different companies.

Scenario 1

Zack is the Chief Executive Office (CEO) of Giga Corporation Berhad, a public listed company in Malaysia. He instructed the company's accountant to show continuous profit increments in the company's financial statements for the past three years until the current year. As a result, the company gained additional new investors and shareholders. However, the new investor and shareholders had no idea that the company's profit had been falsified including the current year.

Scenario 2

Daniel Lee, Director of Best Destiny Hotel Resorts Berhad, proposed the company to purchase a new yacht costing RM1.5 million to replace an old yacht purchased 5 years ago. During the company's recent Board of Director's meeting, the shareholders approved Daniel Lee's proposal to replace the old yacht. However, the shareholders were unaware that the new yacht was purchased above the market price; in which was only RM1 million from Daniel Lee's brother.

Required

(a) Based on the scenarios above, name the issues that normally happen between the principal and agent relationship. (2 marks)

(b) Briefly explain the role between principal with the agent. (2 marks)

(c) State any **TWO (2)** advantages of appointing a company auditor to audit a company's financial statement. (4 marks)

(d) Provide **FOUR (4)** criteria that explain why a professional accountant is qualified to provide auditing services. (4 marks)

(e) Briefly explain the objectives of the compliances audit and operational audit. (2 marks)

Continued...

Part B

(a) Mr. Hong is a licensed freelance auditor who was hired by Frank Food Industries Berhad to conduct financial statement audit. This is Mr. Hong's first time auditing the company, therefore he must collect both financial and non-financial information to understand the company's accounting system and business processes. He managed to get some information from the company's internal auditor. However, Mr. Hong was rejected from obtaining some important documents by the company's accounts executive with reasons that it is too confidential and it may interrupt their daily operations. Even though Mr. Hong had presented his engagement letter as the company's auditor, the Head of the Accounts Department ignored his request.

Required

(i) Briefly explain the rights of Mr. Hong in obtaining the company's information under Section 266 of the Companies Act, 2016. (4 marks)

(ii) Based on your understanding of an auditor's right, can the company's employee rejects or refuses the auditor's request for information for audit purposes? (1 mark)

(iii) Briefly explain the consequences that the company's employee will face for rejecting Mr. Hong's request and disallowed his access to the documents. (3 marks)

(b) Name the last **THREE (3)** stages in the financial statement audit. (3 marks)

(Total: 25 marks)

QUESTION 2

Part A

"In financial statement audit, an auditor is responsible in planning and performing the audit to obtain **reasonable assurance** that the financial statements are free of material **misstatement**."

Required

(a) Provide **THREE (3)** reasons why an auditor can only manage to obtain reasonable but not absolute assurance. (3 marks)

Continued...

(b) Name and briefly explain the **TWO (2)** types of misstatements in financial statements. (2 marks)

(c) Based on the scenario below, determine whether the following scenario involves misappropriation of assets or fraudulent financial reporting.

Scenario	Details
I	The company's driver uses the company's vehicle for personal purpose that the company is unaware of.
II	The Chief Finance Officer (CFO) recorded several invoices billed on the following year as current year's revenue to show net profit increased compared to last year.
III	The Chief Executive Officer (CEO) of the company uses the company's money to purchase a land under his name.
IV	The Accounts Manager reduces the company's expenses by changing the accrual accounting basis to cash basis whereby expenses are recognised when they are paid.

(2 marks)

(d) Financial statement audit can be conducted by an auditor or a team of auditors. List **THREE (3)** duties of an audit assistant. (3 marks)

Part B

(a) Below is the audit evidences and findings reported by Fanny, a company auditor when audited SK Wholesales Trading Sdn. Bhd.'s current financial statement ended on 31 May 2023.

No.	Descriptions of the audit evidence and findings
i.	The company's loan was used to purchase a land under the name of one of the directors of Saujana Setia Development Berhad was recognised as the company's land in the company's accounts book.
ii.	A fire destroyed many cash sales invoices that were used to bill walk-in customers. As a result, some revenues were not recorded in the company's accounting book since they could not be traced.
iii.	One of the company's fire insurances was paid six months in advance. However, the company recorded this prepayment as insurance expenses for the year.

Required

Identify the management assertions violated by the company management that matches the audit findings reported. (3 marks)

Continued...

(b) Briefly describe the **THREE (3)** objectives of investigating a company's accounting and internal control systems. (5 marks)

Part C

(a) State any **THREE (3)** events that may cause uncertainty on a company's ability to continue as a going concern. (3 marks)

(b) Briefly explain the differences between adverse and disclaimer report. (4 marks)

(Total: 25 marks)

QUESTION 3

Part A

Clarence, an auditor, was assigned to understand the internal control and control risk for Fine Oil Industries Sdn. Bhd. The company assigned their internal auditor, Jimmy, to assist Clarence in conducting the audit. Upon her visit to the client's factory, Clarence interviewed Jimmy to understand the factory's internal controls and operation procedures. She also asked some of the factory workers to fill in the internal control questionnaires.

Required

(a) Name the audit procedure Clarence was performing and explain its purpose based on the situation described above. (2 marks)

(b) One of the responsibilities of the company management is to design and implement the company's internal control. Provide the **FOUR (4)** objectives of internal control. (4 marks)

(c) "According to the auditing standards, it is required for an auditor to document the understanding of the company's internal control components."

Required

If you are on the same audit team as Clarence, suggest to her the **FOUR (4)** methods for documenting the company's internal control process. (4 marks)

Continued...

(d) "The auditor should obtain an understanding of each of the five components of internal control to plan an audit. One of these components is control environment."

Required

List any **FOUR (4)** factors that affect a company's control environment. (4 marks)

Part B

(a) Define the following terms:

i. Audit risks (2 marks)

ii. Inherent risks (2 marks)

iii. Control risks (3 marks)

(b)

Detection risk cannot be reduced to zero because the auditor usually does not examine all transactions, account balance, or disclosure and because of **other factors.**

Required

Briefly describe the **THREE (3)** other factors mentioned above. (3 marks)

(c) Explain the meaning of "material" in audit perspective. (1 mark)

(Total: 25 marks)

Continued...

QUESTION 4

Part A

(a) "When auditing, sometimes an auditor is unable to determine whether the audit evidence obtained is reliable or otherwise. The reasons are due to the nature and source of the audit evidence itself."

Required

List and explain the **FOUR (4)** types of factors auditors need to consider when evaluating the reliability of audit evidence using the table below.

No.	Types of factors	Explanation
i.		
ii.		
iii.		
iv.		

(8 marks)

(b) Explain how can an auditor apply professional skepticism when collecting audit evidence?
(4 marks)

Part B

Below are the job descriptions of two auditors, Horwath and Kenny.

Horwath works in a firm known as THC Donald & Associates PLT for more than 5 years. He is one of the partners and he needs to meet clients for new engagements. He also leads two audit teams and ensures the tasks assigned are completed as planned. On the other hand, Kenny works at D&G Distributors & Holdings Berhad for more than 3 years. Every quarter of the year he is assigned to conduct audits on some of the subsidiary companies of the company and report to the head of his department. Recently, Horwath met Kenny to discuss his latest engagement with D&G Distributors & Holdings Berhad and its subsidiary companies. Kenny agrees to provide his full cooperation and assist Horwath on his work by sharing his knowledge and findings when required.

Required

(a) Explain any **TWO (2)** contributions of Kenny's job to his company's top management.
(2 marks)

Continued...

(b) Briefly explain the differences between Horwath's job scope compared to the Kenny's based on the characteristics listed in the table below:

No.	Characteristics	Horwath's job scope	Kenny's job scope
i.	Period		
ii.	Objective		
iii.	Independence		
iv.	Primary concern		

Note: You are required to use the table format above to write your answer.

(8 marks)

(c) List any **THREE (3)** criteria that Horwath needs to consider before he accepts Kenny's findings and audit work. (3 marks)

(Total: 25 marks)

End of Paper